

LETTER FROM THE | CHAIRMAN



The Public Employee Retirement Administration Commission is pleased to release this 2014 Annual Report reviewing the status of the Massachusetts' public pension plans.

This is the first Annual Report issued during my tenure as Commission Chairman. It is appropriate that we pause for a moment and reflect on the record of public service of my predecessor Judge Domenic J.F. Russo. In the too short a period that I had the honor of working with the Judge, his dedication, sense of fairness and good nature provided a shining example for all of us to follow. As we work to better our retirement system and secure the rights of employees, retirees and their beneficiaries our task will be easier if we use the Judge as our guide.

Since the publication of our last Annual Report Commissioner Donald Marquis, who served as the MMA appointee of the Auditor, has left the Commission. During his tenure, Commissioner Marquis brought his decades of local government experience to bear on complex retirement matters. Commissioner Marquis was a tireless advocate for the responsible management and adequate funding of our retirement systems. As an original Commissioner he played an instrumental role in all of PERAC's many accomplishments during his tenure. We wish him the best in his future endeavors.

Kate Fitzpatrick, Town Manager of Needham, has been selected by the Auditor to fill the MMA position on the Commission. In her short period of service Kate has shown an enthusiastic commitment to protecting our retirement system and enhancing the Commission's oversight.

As a consequence of my assumption of the duties as Chairman a vacancy was created in the seat on the Commission reserved for an individual with investment experience. Governor Deval Patrick appointed Elizabeth Fontaine, Assistant Executive Director of the Massachusetts Educational Financing Authority to insure that we have a full Commission.

Last year's Report it was noted that the systems were in the final stages of recovering from the 2008 market collapse. That process is now complete and we can move forward with addressing financial challenges in a measured, comprehensive and responsible manner.

The investment performance of the systems detailed in this Report generally tracked that of pension plans throughout the nation. The Composite Return of 7.81% compares well with the national median of 6.76% as set forth by TUCS Total Return of 145 Public Fund Master Trusts.* Although in 2014 returns ranged from 1.10% to 12.91%, most systems achieved returns between 7% and 9%. Long-range performance with very few exceptions exceeded 8% and in some cases was above 10%.

This data should be assessed in the context of the trend towards lower actuarial assumptions for investment returns that, under the leadership of PERAC Actuary Jim Lamenzo, has accelerated over the course of the last few years.

The daily press of business often prevents us from taking a long range view. Each day brings reports of public pension systems on the verge of collapse. Recent events in Chicago may be

a harbinger of the future for those who have not acted to address longstanding issues. In Massachusetts we stand out as having taken responsible, aggressive action to improve system finance and governance. This foresight has enabled us to weather the 2008 storm, to adjust to demographic changes and to preserve the core benefits available to members. Nonetheless, we must exercise care going forward and preserve the structural reforms that have contributed to these gains.

As always, the Commission and staff will use our best efforts to assist the retirement boards in safeguarding the interests of system members and beneficiaries.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Philip Y. Brown'.

Philip Y. Brown
Chairman

* **Performance Comparison** — Data for Wilshire Associates Universe Comparison Service is supplied by Wilshire's Manager Universe Database and by Wilshire's Cooperative Universe Service.